

EXECUTIVE SECRETARIAT**ROUTING SLIP**

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	VC/NIC		X		
16	NIO/ECON		X		
17	D/OGI		X		
18					
19					
20					
21					
22					
SUSPENSE		Date			

Remarks

This is the memo Jim Baker sent to the President as background for this afternoon's EPC meeting. (This copy was obtained from SedDef's office.)

Executive Secretary

9 Sept. 85

Date

3637 (10-81)

STAT

85- 3426

THE WHITE HOUSE

WASHINGTON

September 6, 1985

6 Sep 85
Trade Strategy

MEMORANDUM FOR THE PRESIDENT

FROM: THE ECONOMIC POLICY COUNCIL

SUBJECT: Trade Policy Strategy

The Economic Policy Council has devoted considerable time and effort in developing an Administration trade policy strategy. The Section 301 unfair trade investigations you are initiating, as well as the proposal to establish a "war chest" to discourage unfair foreign trade subsidies are products of the Council's efforts to pursue your commitment to free and fair trade.

In developing the strategy outlined below, we have drawn upon all available resources, including the initiatives developed by House Republicans. We are pleased to note that in many substantive areas, their work parallels our own.

Macro-Economic Policies

1. The U.S. must recognize the adverse impact of excessive government spending and budget deficits, the recent strength of the dollar, and government regulations on the U.S. trade deficit.
2. The President's tax reform proposal is essential to strengthening the economy and making U.S. businesses more competitive in international markets.
3. The U.S. will encourage its trade partners to adopt policies that will accelerate their economic growth by urging Bonn Summit participants to act on their commitments to remove rigidities and imbalances in their economies. The U.S. will continue to use discussions of the economic situation and policies of major countries undertaken by IMF and OECD to pursue this strategy. In particular, the October IMF annual meetings provide an opportunity in quiet talks and formal sessions to encourage others to strengthen their domestic growth. This Administration is not seeking old-fashioned "pump-priming" increases in government spending, but rather policy shifts such as expenditure reductions, tax reform, and financial market liberalizations which permanently

- 2 -

increase growth opportunities. Such policies and actions by our trade partners will contribute to a gradual strengthening of their currencies and will enhance U.S. exports.

Ensure Free and Fair Trade

1. The Administration remains unequivocally committed to free and fair trade and will continue vigorously to promote an open trading system through negotiations aimed at improving trade rules and increasing market access.
2. The U.S. will vigorously pursue its trade rights and interests under U.S. law and the GATT, and will see that other countries live up to their obligations and trade agreements with the U.S.
3. The Administration will continue vigorous enforcement of U.S. antidumping and countervailing duty laws.
4. In the past, the U.S. has initiated Section 301 unfair trade cases only in response to formal petitions for action from U.S. industries. The Administration will, as appropriate, also self-initiate such cases to address foreign unfair trade practices.
5. If you approve the EPC proposal, Exim bank will be directed to begin an aggressive targeted mixed credit lending policy. At the same time the Administration will seek a \$300 million appropriation for grants to support up to \$1 billion in mixed credit loans. These initiatives will continue until the elimination of predatory mixed credit competition from our trading partners is accomplished through negotiation.
6. Competition in international trade should involve business firms, not government treasuries. This calls for the diligent negotiation of international rules on export subsidies, a high priority endeavor of this Administration. Where such rules are absent, inadequate, or unsatisfactory in their implementation, the U.S. will vigorously protect its legitimate market share against the subsidy programs of other nations.
7. The Administration will take tactical measures aimed at eliminating unfair foreign trade practices and opening foreign markets, if efforts

- 3 -

to resolve such issues through consultations fail. The denial or limitation of access to the U.S. market may be a necessary step in this process.

8. The Administration supports the market-opening objectives of equitable access legislation but will oppose legislation that would require the President to close U.S. markets on the basis of sectoral reciprocity. Rather, the Administration prefers legislation that gives the Administration authority to negotiate foreign barrier reductions.
9. The Administration will increase efforts to protect intellectual property rights (patents, copyrights, trademarks); we will accelerate work with a view toward possible Administration initiatives in this area.
10. The Administration will seek to give owners of proprietary information the right to challenge requests for this information under the Freedom of Information Act.
11. The United States will continue market-oriented sector selective (MOSS) discussions with Japan. However, time limits will be placed on existing sector discussions, at the end of which specific commitments will be evaluated and follow-up procedures begun. New sectors will be added that offer the promise of expanded U.S. exports.
12. Follow-up of the 1984 yen-dollar report liberalizing Japan's financial markets and internationalizing the yen will continue.
13. The Administration will follow up on its reports to the Congress on the subject of foreign industrial targetting, by continuing to examine the potential problems created by foreign targetting and, where appropriate, possible remedies.

Promote U.S. Exports

1. The U.S. will seek to redress the trade deficit through increasing exports instead of restricting imports. A good example of this is the \$2 billion export enhancement program (BICEP).
2. The Administration will work with private sector advisory groups (e.g., the President's Export

Council) to improve export promotion and to help companies look at global markets.

3. The Administration will evaluate Federal export promotion activities during the fall budget review to improve their effectiveness.
4. The Administration will again seek legislation to remove the export disincentives in the foreign corrupt practices act.
5. The Administration will increase its program of aiding state governments interested in promoting export activities through state agency activity.

Promote Multilateral and Bilateral Trade Negotiations

1. There is a great need for a more comprehensive, disciplined and effective system of world trade rules. The system needs fixing.
2. The Administration will maintain efforts to launch a new GATT round based on U.S. objectives already-agreed upon internally.
3. The Administration will examine possible bilateral and purilateral negotiating opportunities, both to improve market access and fairer trade and promote wider interest in the multilateral negotiating process.
4. If so requested by the Government of Canada, we would be prepared to work with the Congress in exploring the possibilities of a free trade arrangement.

Import Relief

1. The Administration is committed to market-based solutions to trade problems at home and abroad, but occasional exceptions, in the form of relief from import competition may be necessary.
2. Import relief, if appropriate, should be transparent, temporary, time-specific, decline over the period of relief, and lead to greater competitiveness.
3. The Administration will review existing worker assistance programs in order to assure that they promote an effective human adjustment policy which contributes to the maximum capacity for change,

- 3 -

mobility, and increased productivity. This review will include an assessment of: (a) training and retraining programs - sponsored by government, labor, and business - on a comprehensive and continuing basis; and (b) employment service, job bank, training, and relocation support for displaced workers in order to minimize human cost and the loss of valuable skills.

National Security

1. The Administration reserves the right to respond to foreign economic conditions and imports that threaten industries essential to our long-term national security.
2. The Administration will vigorously enforce our export control laws to prevent transfers of sensitive and critical technology of military significance to potential adversaries. At the same time, the Administration recognizes the reality of foreign availability and the importance of our reputation as a reliable supplier. We are also aware that future technical advances by U.S. industry depend on maintaining the widest possible access to foreign markets and on fostering the widest exchange of scientific information.

International Finance

1. We need to strengthen and improve the operation of the international monetary system, as an essential framework for international trade and a more productive and growing global economy. The United States has been working with the Group of Ten major industrial countries to develop recommendations for improving the international monetary system, which will be considered by the IMF Interim Committee in October. These represent important steps in the right direction and should be implemented. But more also needs to be done. In particular, we must work cooperatively with other nations to adopt policies which will help assure greater international economic stability.

To this end, the United States is prepared to consider the possible value of hosting a high-level meeting of the major industrial countries, in order to review the various issues involved in transforming the findings of the Group of Ten into appropriate action. Such a special meeting could build on the G-10 studies by

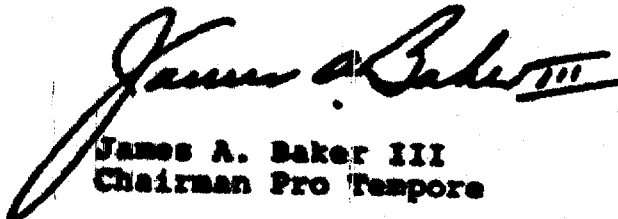
considering, in a cooperative fashion, the policies and performance in the major industrial countries, and how these can be improved to promote convergence toward non-inflationary growth.

Trade and Debt

1. The Administration will encourage debt-burdened LDCs to reduce government impediments to the functioning of markets in their economies, encourage production through market incentives to their business firms and employees, and substitute capital for debt by encouraging both domestic and foreign investment. These steps will enhance economic growth, thereby increasing debt repayment capabilities and also expanding U.S. export opportunities.

Regulatory Policies

1. The Administration is reviewing, and will seek to amend, if warranted, anti-trust laws or regulations that impede our international competitiveness.
2. The Administration will consider trade implications when reviewing proposed regulations and when developing further deregulation initiatives. The Administration will use the trade leverage created by its deregulatory process to seek to open foreign markets, thereby minimizing the problem of free rides for foreign suppliers.


James A. Baker III
Chairman Pro Tempore